Quay Global Real Estate Fund

Monthly performance update

As at 30 November 2017

At a Glance

Feature	Fund facts
APIR Code	BFL0020AU
Index	FTSE/NAREIT Developed Index
Investment objective	To generate a real total return of at least 5% above CPI per annum over a 5+ year investment horizon
Portfolio managers	Chris Bedingfield/Justin Blaess
Stock number	25
Inception date	30 July 2014[1]
Recommended investment period	Long term (5+ years)
Minimum investment	A$20,000
Additional investment	A$5,000
NAV[2]	1.0685
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

Global Equities again surged +3.1%, assisted by the ongoing strength of the US equity market fuelled by a strong reporting season and an expectation of significant company tax cuts. A weaker Australian dollar assisted locally-reported returns. Closer to home, the local bourse advanced 1.0%, although confirmation of a banking enquiry on the final trading day capped returns.

Fund Commentary

The Quay Global Real Estate Fund delivered a +4.2% return for the month, with approximately +3.0% derived from our underlying stock exposure. A weaker AUD added to monthly performance for the second month in a row, although we remind investors these tailwinds can reverse and become headwinds.

For long-term investors, the underlying stock returns are what will ultimately matter, which is very much how we think about our near-term performance. We strongly believe the long-term compounding effect of returns from high-quality investees eventually overwhelms short-term movements in foreign exchange. Interestingly, after all the gyrations of the AUD over the past two years, the month-end AUD/USD exchange rate (0.76) is similar to the rate 12 months ago (0.74), and modestly higher compared to November 2015 (0.72). To date, we are very satisfied with the underlying performance of the Fund.

During the month we exited Hansteen Holdings, a company we have held since the Fund's inception in July 2014. The company recently sold its European Industrial portfolio at a premium to book value, and returned capital by way of a 1 for 2 share buyback at a premium to the market price. We took advantage of the entitlement and chose to exit our investment entirely, as we felt current pricing did not provide a margin of safety for the CPI + 5% return we seek.

To exit Hansteen after just 3.5 years is a little disappointing. We always prefer to hold our investees for more than five years, as we fundamentally believe real estate is a long-term investment proposition. However, the company delivered the Fund a total return of +55% (61% in local terms) over the investment period, comfortably surpassing our investment objective. We generally accumulated our position at what we believed to be a substantial discount to the 'depreciated adjusted' replacement cost, so we never really felt there was much risk of permanent capital loss. Therefore from a risk/return perspective we are satisfied with the outcome.

The Fund's performance was further enhanced after our recently acquired position in GGP Inc received an unsolicited offer from entities associated with its largest shareholder, Brookfield. GGP Inc owns and manages around 120 regional malls in the US.

Regular readers may be surprised we have exposure to the US mall industry, especially since we articulated our concerns last year. However, the significant decline in mall REIT share prices suggested much of the risk and downside was more than reflected in the price of a select few names. The opportunity presented itself via our screening models, that in turn rely heavily on utilising a theoretical capitalisation rate to identify acceptable total returns. For more on this process, and why we believe it's important, refer to this month's Investment Perspectives: *The theoretical construct of a capitalisation rate, and why it matters.*

The GGP offer is in its early days; there is no certainty a transaction will eventuate. At this stage we are not adding to our position. However, if a transaction does occur, it will represent our fourth investee to be acquired at a premium by way of a corporate transaction since the Fund's inception. A fifth investee (LEG Immobilien) was subject to an offer at a premium to market price in 2015, but ultimately failed. Today, LEG is trading substantially higher.

We think this is a pretty fair batting average for a concentrated fund of between 20-25 securities, and believe it somewhat vindicates our process and approach to global real estate. That is, we seek to identify high-quality companies, backed by a strong theme, while offering competitive total returns in a low-risk manner.

At month end, the Fund held slightly more cash than normal due to our exit of Hansteen Holdings. We expect to deploy this capital soon, as we continue to believe attractive investment opportunities exist across the global real estate landscape.

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QUAYglobal INVESTORS

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Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	+4.2%	+3.8%	+0.4%
3 months	+7.5%	+6.5%	+1.0%
6 months	+5.0%	+2.7%	+2.3%
1 year	+16.8%	+9.1%	+7.7%
2 years (p.a.)	+6.8%	+4.5%	+2.4%
3 years (p.a.)	+12.1%	+8.3%	+3.8%
Since inception (p.a.)*	+15.7%	+10.8%	+4.9%

Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax

* Inception date is 30 July 2014[1]

** FTSE/ EPRA NAREIT Developed Index Net TR AUD[4].

How to invest

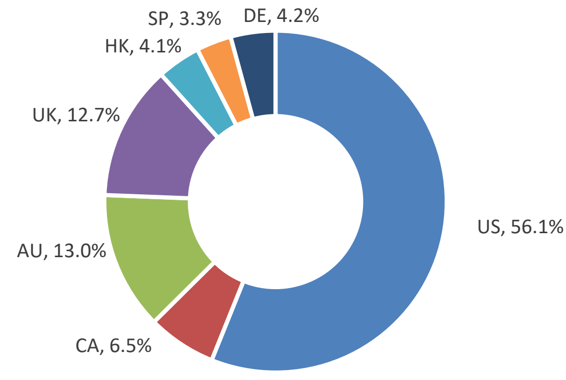
The Fund is open to investors directly via the PDS (available at quaygi.com), or the following platforms.

Platforms
Hub24 Super
Macquarie Wrap

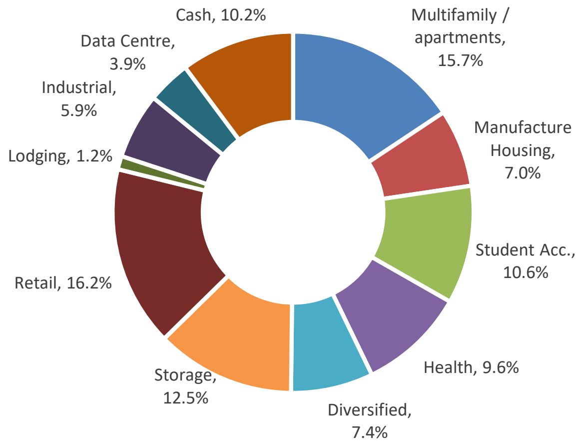
Contact details

For more information, please call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit quaygi.com

Geographic Weightings



Sector Weightings



[1] The Quay Global Real Estate Fund was launched 31/1/2016 (The Daily Series). Performance information before this date relates to the strategy (Series 1), which was launched 30/7/2014. For those who are invested in the Daily Series, please contact Client Services (1800 895 388 (AU) or 0800 442 304 (NZ) or client.services@bennelongfunds.com) to request your performance history.

[2] Adjusted for expected withholding taxes.

[3] The management fee does not include fund expenses, which are capped at 0.10% per annum on net asset value, or the performance fee. Any performance fee payable is 15.375% of the excess return over the greater of CPI and the FTSE/EPRA NAREIT Developed Index (net) Total Return (AUD). All fees quoted include GST net of reduced input tax credits. For more information, refer to the Product Disclosure Statement dated 1 February 2017 (ARSN 610 224 381).

[4] Source: FTSE International Limited (“FTSE”) © FTSE 2017. “FTSE®” is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. "NAREIT®" is a trade mark of the National Association of Real Estate Investment Trusts and "EPRA®" is a trade mark of European Public Real Estate Association and all are used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE’s express written consent.

The Fund is managed by Quay Global Investors, a Bennelong Funds Management boutique.